



Mains Practice Question

Case Study

You are the CEO of XYZ Corporation, a multinational conglomerate. The company appoints a new manager, Mr. Rakesh, known for prioritizing short-term profitability and cost-cutting measures. Under his leadership, the company's financial performance improves, but ethical concerns arise.

Mr. Rakesh implements strategies that include capital infusion through debts and over pressurising the employees to work, resulting a significant increase in company's profitability. Through his policies Company's shareholder value started increasing and very soon, Mr. Rakesh earns a good reputation image in the eyes of the Board of the directors.

Gradually, the employees start leaving the company. During the initial inquiries you come to know that its Rakesh's unruly behaviour because of which the employees are leaving. You also come to know that the policies of Rakesh will boost the profits for a short term, but they're not suitable for sustainability in the long run. The cosy picture that Mr Rakesh has presented is not entirely true. He manipulates financial statements using regulatory loopholes, artificially inflating the company's profitability. This practice attracts investors but questions the accuracy and transparency of financial reporting.

What are the ethical issues involved and what options are available to you to handle this situation?

12 May, 2023 GS Paper 4 Case Studies

Approach

- Start your answer by briefly introducing the issue.
- Talk about various stakeholders involved in the case.
- Discuss ethical dilemmas involved in the case.
- Discuss the available options and course of action that should be taken.
- Conclude accordingly.

Introduction

XYZ Corporation appoints a new manager who prioritizes short-term profitability and cost-cutting. While profits rise, ethical concerns emerge, leading to employee departures. The initial inquiry uncovers unsustainable policies and manipulation of financial statements for artificial profitability. The case underscores the importance of balancing short-term gains with long-term sustainability and ethics.

Body

Stakeholders Involved:

- The Company
- Shareholders
- Employees
- Board of Directors
- You as a CEO

Ethical Issues Involved in the Case:

The situation described raises several ethical issues:

- **Unethical treatment of employees:**

- Mr. Rakesh's behaviour and management style, which over pressurizes employees to work, is causing them to leave the company. This indicates a lack of respect for employee well-being and violates the principle of treating employees fairly and ethically.

- **Lack of transparency and accountability:**

- Mr. Rakesh's manipulation of financial statements raises serious ethical concerns. By artificially inflating the company's profitability, he misrepresents the financial health of the company. This not only deceives investors but also compromises the accuracy, transparency, and integrity of the financial reporting process.
 - The manipulation of financial statements and the creation of a false image by Mr. Rakesh raise concerns about transparency and accountability.

- **Short-term focus at the expense of long-term sustainability:**

- Mr. Rakesh's emphasis on short-term profitability and cost-cutting measures may lead to a boost in shareholder value in the short term. However, it ignores the long-term sustainability of the company. Prioritizing short-term gains over long-term viability can harm the company's reputation, damage employee morale, and undermine the trust of stakeholders, ultimately impacting the company's long-term success.

Options Available to You as a CEO:

- **Remove Rakesh from his post:**

- **Pros:**

- Demonstrates a commitment to upholding ethical standards within the organization.
- It sends a clear message that unethical behavior and practices will not be tolerated.
- It can help improve employee morale.

- **Cons:**

- Such a step can create a temporary leadership vacuum, which may lead to a period of uncertainty within the organization.
- May initially shake the confidence of the Board of Directors and investors who have seen positive financial results.
- Can cause some legal trouble

- **Report to Board of directors:**

- **Pros:**

- Their diverse expertise and experience can help make informed decisions.
- Involving the board, may increase the likelihood of being able to take appropriate actions.
- May enable the board to fulfil their oversight duties and take appropriate action

- **Cons:**

- Board's composition and relationship with Mr. Rakesh may cause conflicts of interest, hindering unbiased decisions.
- Rakesh's image before them may turn the table against you

- **Ignore and wait for the time to automatically expose the issue:**

- **Pros:**

- You may gather additional evidence against Rakesh's unethical practices and financial manipulation.
- Unethical practices and financial manipulation may be exposed by regulatory bodies, auditors, or whistleblowers.
- Ignoring the issue can avoid conflicts, allowing observation and comprehensive planning.

- **Cons:**

- Delaying action can cause more harm to the company's reputation, financial stability, and employee morale.
- Inaction or indifference toward unethical behavior can lead to loss of trust from stakeholders.

- Toxic work environment may lead to talent drain, impacting productivity and morale.
- Exposure of the issue by a third party may attract legal consequences and damage the company's standing further.

Course of Action:

- **Conduct Neutral Investigation:** Initiate a thorough investigation into the allegations against Mr. Rakesh's behaviour and financial reporting practices.
- **Review Financial Reporting Processes:** Implement a review of the company's financial reporting processes to identify any irregularities or potential regulatory violations.
- **Communicate with the Board of Directors:** Share the findings of the internal investigation and financial reporting review with the Board of Directors
- **Address Employee Concerns:** Take immediate action to address the employee concerns related to Rakesh's behaviour through Engaging them in open and transparent communication.
- **Remove Mr. Rakesh If Necessary:** If Rakesh and his actions are deemed detrimental to the company's long-term interests, consider removing him from his position.
- **Strengthen Governance and Controls:** Implement stronger governance mechanisms and internal controls to prevent similar issues in the future.
- **Develop Long-Term Strategy:** Develop a comprehensive long-term strategy that focuses on sustainable growth, ethical practices, and employee well-being.
- **Restore Credibility:** Take steps to restore the company's credibility and reputation. Communicate openly and honestly with stakeholders, including investors, customers, and employees, about the actions taken to address the situation.

Conclusion

It is important for the CEO to address the ethical concerns associated with Mr. Rakesh's strategies by conducting a thorough investigation, holding him accountable, and implementing measures to restore trust and transparency. Prioritizing long-term sustainability and ethical practices is crucial for the company's reputation and success.